

IMPACT OF POVERTY ON CHILDREN*

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I AM HONORED TO BE HERE. It is not often that I give named lectureships. It is even less often that the named person is in the audience. It is quite intimidating and it is even less often that he is in the audience taking notes! I shall nevertheless try to proceed. Indeed, I come to this Academy following in the footsteps of my father Paul Ellwood, who first spoke here some 20 years ago about a new idea, health maintenance organizations.

Today I shall provide background information about poverty and what can be done about it. I shall speak some about health issues. Indeed, I was exposed to them constantly growing up. But mostly my focus will be on the larger set of causes and solutions to poverty. Maybe in the next presidential election poverty will become an issue. I am sometimes told that if it is, we are more likely to elect people who would do less about poverty rather than more. I hope that is wrong. Last time, of course, candidates spent a lot of time at the Statue of Liberty, waving the flag. But what is discouraging is that nobody bothered to read the plaque on Lady Liberty. You know what it says, "Give me your tired, your poor—" (Actually, just as an aside, I never did understand why we wanted the tired; the poor, perhaps—But the tired probably should not have come.) Our symbol of America beckoned for the "huddled masses yearning to breathe free—" The irony is that all those European countries from which so many immigrants came now have vastly less poverty than we do. Perhaps they did give us their poor! Maybe that was the point: come here because we have a lot of poor people, you will feel right at home. But that statue is supposed to stand for the American Dream: start poor, work hard, become prosperous. Apparently that has not always happened. So ultimately the question is why are we doing so poorly by our children?

Let me tell you a little brief personal history. Five or six years ago Charles Murray burst onto the scene with a very powerful and quite important book

*Presented as The Duncan W. Clark Lecture as part of the 1991 Annual Health Conference, *Children At Risk: Poverty and Health*, held by the Committee on Medicine in Society of the New York Academy of Medicine May 20 and 21, 1991.

that basically said that welfare was a major cause of poverty. Not only was it not part of the answer, it was a major part of the problem. My own work, which until then had remained in blissful obscurity, typically showed that welfare had not been the root of all evil. Suddenly my ideas were being debated in the *New Republic*. I was called upon to give speeches and even go on talk shows to defend the welfare system. Let me tell you there is no less pleasant experience in life than to defend welfare. It was not just that I would get an occasional call from someone who seemed to be from the dark ages, I did not get a single friendly phone call.

Everyone hates welfare. Conservatives say it breeds dependency and illegitimacy. Liberals talk about the low benefits. And most of all the people who use welfare hate it, complaining of the humiliation and the stigma and the isolation. I once had a professor who said, "When everyone tells you are drunk, lie down." And so I began to wonder why everyone hated welfare, and why it had nonetheless remained our predominant way of dealing with poverty since the 1930s. I have decided that the problem is that welfare treats the symptoms and not the causes of poverty. Welfare would be the ideal policy if the reason people were poor is that they did not have enough money. But there is a reason they do not have enough money. Maybe they work at a job that does not pay enough or one parent may be expected to do the job of two, or they do not have a job.

Better solutions to poverty, ones that are much more politically viable and much more helpful for the poor, involve solving real problems, not solving them with cash. So what are the causes? Let me begin by shattering one of the most dangerous and destructive myths about poverty. When Americans close their eyes and imagine a poor person, they tend to see a person of color, living in a big city like ghetto Harlem. To most people ghetto poverty is poverty in America. It just is not true. Many researchers have counted how many of the poor live in ghetto neighborhoods. They typically find that no more than 10% of the poor live in ghettos! If we really, really get loose with our definition of ghetto, we can get up as high as 13 or 14%. Now that is not quite true in New York City. In New York more like 40% live in ghettos. But even here, it is amazing that the majority do not live in high poverty areas. To understand ghetto poverty and certainly to understand poverty in general, one has to look at the other 90% of the poor and understand their problems. Because if the other 90% are having trouble making it in America, if people who live in far better neighborhoods are poor, the 10% in ghettos stand little chance at all.

If we are ever going to solve poverty we must adopt two basic principles: If you work you should not be poor. And one parent should not be expected to

do the entire job of two. If we adopt these principles and act accordingly, we will make enormous progress. If we do not, we are going to be left with the same or higher levels of childhood poverty in perpetuity.

Let me talk about each very briefly. Depending on the state of the economy, between 40 and 50% of all poor children are in two parent families. And in those families almost always someone is working, unless a parent is disabled or elderly. Most often they work a full year full time. These are not families who suffer from a lack of work ethic, a culture of poverty, or anything else. These are families that work at the worst jobs, get the lowest pay, and are not making it. These people are playing by the rules and losing the game. And even in the families where someone only worked only part of the year, typically their wages are so low that even if they did work a full year, full time, the family would still be poor.

How is it even possible that one can work and be poor in America? The poverty line for a family of four is something in the range of 13 thousand dollars a year. A full time job paying \$6.50 an hour would be needed to reach that. But the minimum wage is \$4.25. One full year, full time minimum job does not even come close to keeping a family of three out of poverty and certainly not a family of four.

Low pay is not a problem just for two parent families or the working poor, it influences people who might become the working poor: people on welfare. Unless they can find a full-time job that pays six or seven or eight dollars an hour, with full medical benefits, they will be better off on welfare than working.

What seems to affect the wages of the working poor? The same things that affect the wages of median workers. Indeed, if you will tell me the median earnings of full year full time male workers in any year from 1960 to 1990, in effect the wage rate for middle workers in America, I will tell you exactly how much poverty there was among children in two parent families within half a percentage point in that year. When wages go up for the middle class, wages tend to rise for people at the bottom. The working poor are on the same roller coaster as the rest of America, they just have the front row seat. This is a group where "trickle down" usually does work. There is just one small problem. There has not been any trickling down in this country for about 20 years. Since 1973, the real wage, adjusted for inflation, of typical male workers, is lower than it was in 1973. Unfortunately, during the last decade it has actually been a lot worse than that at the bottom. Wages have fallen much more for the lowest paid workers in our society, even full time workers, than for the rest of us. Indeed, the only reason poverty has not gotten even worse is that more wives are now working.

What do we do for these families now? Virtually nothing. They usually do not qualify for welfare or for Medicaid. They can get food stamps, but rarely accept them. When we go to these families, they talk about not being able to make ends meet. They do not have enough money. But the first thing they talk about is medical care. And it is easy to see why. They are literally one broken finger away from losing absolutely everything or maybe they have a child with some disorder that requires a frequently resized prosthetic device. They cannot afford to get it, so the child grows up crippled. It is not that such people are often denied critical emergency care. They get it, and we pay for it in various ways, but only after we have bankrupted the family, only after we have destroyed the things that they have worked for. The other great irony is that the only people who really do not have medical care are the people working poor. If one is not working, that is when one goes on welfare and gets Medicaid. Higher wage workers are covered by their employers. Every other industrialized country has found a way to guarantee protection to all its citizens. We exclude the working poor! Surely we must do better.

In addition, there is a lot we can do about the financial struggles of the working poor. We have got to find a way to make work pay. How do we do it? A favorite policy of people on both the left and right is tax credits. We already have the earned income tax credit. It is a bad name. It should be the "working family tax credit." It already exists at the federal level, and, in fact, it was expanded dramatically in the last budget summit agreement.

Basically, how it works is that for every dollar a low income family earns up to a maximum, they get a tax credit. And it is a refundable tax credit. So, even if they owed no taxes, they can get some money back. Right now, every dollar they earn, they get 14 cents. In later years it will go as high as 25 cents. So it is like a 25% pay raise for the working poor. It is a terrific thing, and it is not very controversial. It is not controversial because we can look any congressman, any senator, in the eye, and ask, "Are you for or against the proposition: In America, if you work you shouldn't be poor?" People do not line up on the other side of that one very often.

So we are making progress. The problem is that credits are expensive. Money is the issue. But compared to the fights over welfare, where money is never the real issue, these battles are far easier to win. There are other ways to make work pay, like raising the minimum wage. The minimum wage today is lower than it was in 1956, adjusted for inflation. It is lower than it was throughout the 1960s and 1970s. It used to be that a full-time minimum wage job would keep a family of three out of poverty. Now it does not even come close. Recently the minimum wage was raised from \$3.35 to \$4.25. But if adjusted to the level it was throughout the 1960s and 1970s, it would have had

to go up to about \$5.50. A combination of a minimum wage of close to \$5.50, plus expanded working family tax credits, could insure that people are not poor. Neither one alone will work.

Let me move on and talk about single parent families. The typical child born in the United States will spend time in a single parent home. The poverty rate in those families is close to 50%. It means most of our children are at risk. What happens to a single parent in the United States? The mother, and it is almost always the mother, has two choices. She can work all the time in the marketplace, or she can be on welfare. That is it. Those are the choices. Now, what about full time work? That is an option. After all, a lot of married mothers work. Still, although most married mothers work, they mostly do not work a full year, full time. Only about a third of the married mothers work a full year and full time. Wives have a lot more going for them because there is a second parent and a second income.

For a single parent it is very tough, since she must be both nurturer and provider. As a single parent, she enters into the market where women's wages are lower. She has to deal with day care. She has to make arrangements when her children are sick. Many single parents do it. But they are the ones that are the best educated, with lots of work experience. There is only one other alternative—welfare—the system everyone hates. Then she is stuck. If she earns a dollar they take a dollar away. Earn too much and she loses Medicaid. And so, unless she can get a full-time job that pays six, seven, eight dollars an hour with medical benefits, she is much better off on welfare. And it is not because welfare pays so well. It is because work pays so little. The notion that most young, never married mothers who have never worked before in their lives, who may have dropped out of high school when they had children, can find and keep a full-time job that pays one and a half or two times the minimum wage with medical benefits is ludicrous! It does not happen very often. The main way women leave welfare is not work. It is by getting married. Congress recently passed some welfare reforms designed to help people to help themselves. That is a good idea. But mostly the kind of people we can help at modest cost are the kind of people that can earn six and seven and eight dollars an hour, people that can work full time. Unfortunately, those are not the kind of people typically on welfare for a long time. So full year, full-time work at high pay is just not a realistic possibility for many single mothers. And many women end up locked in welfare. Still, the worst parts of the welfare system have nothing to do with the financial binds.

I teach a course on poverty at the Kennedy School at Harvard, and every year we have a group of welfare clients who come in and talk about their

experience. This year we had a woman come in who told a tragic saga of being married and badly abused. She told story after story of just horrible things that had happened to her. Ultimately she left the man, and struggled to hold her and her children's lives together. She became homeless. Throughout her telling of this part of her life she remained poised. Finally she was forced to go on welfare. She said, "I walked into the welfare office," and she broke down and cried. She could handle all the struggles of life, but she could not handle what they did to her in the welfare offices. She could not take the humiliation, the stigmas, the hostility, the invasions of privacy. This was in Massachusetts, by the way, with the best welfare system in the country.

So that is what we offer our mothers and our kids, the typical child born in America. Those are the choices, full-time work or welfare. And as long as those remain the choices, we will see the outcomes we see today.

There is an alternative: Child support enforcement and insurance. Right now even though a typical child born in the United States will spend time in a single parent home, only about a third of single parents receive any court ordered child support at all. And those that do get support get an average of about \$2,000 per year. The signals we are sending are truly outrageous. What are we saying about responsibility and parenting? It is so much worse to miss a car payment in this country than to miss a child support payment. The court system is a mess. The enforcement system is worse. The policeman for child support is the mother.

Suppose single mothers could count on just \$2,000 per child in child support payments? That would be \$4,000 that a single parent could count on if she had two children. Now the poverty line for a family of three is in the range of \$9,000 to \$10,000. It turns out that half-time work at a \$5 an hour job gets her out of welfare in every state and also gets the family out of poverty or very nearly there. So part time work becomes feasible and profitable, even at low pay. We could come close to that if we had a much improved child support enforcement system. I shall not talk in detail what those things might look like. It involves identifying both parents at birth. It involves having a simple formula to decide what to pay according to the earnings, simple percentage earnings. It involves automatic wage withholding for all new awards. Those three elements are critical and they will happen. They are already part of federal law. There is only one trouble that remains. I said that a woman needs to be able to count on \$2,000. But she cannot count on that if the absent father is earning nothing. He cannot provide that support. That is why I think that we ought to learn the lesson of Social Security. Have a system of child support enforcement and insurance. The insurance part is

critical. When collections from the absent father fall below some minimum, provide guaranteed, insured minimum child support benefits. Now we have a system which covers everybody: rich, poor, middle class, upper class, working class. We would collect money from absent parents automatically through withholding just like Social Security taxes. The money would be given over to the custodial parent. But should collections fall below some minimum, single mothers would have some protection, like Social Security. The greatest source of insecurity in America used to be getting old. Today it is growing up in a single parent home. We put single parents in impossible positions.

The most amazing thing about child support enforcement and insurance is that it costs very little. We mostly are paying single mothers already with welfare. We can pay for child support insurance out of welfare savings. But this is not welfare by another name. There is no welfare office. There is nobody to snicker in the line when she is using food stamps when she is buying some meat. There is no dollar for dollar reduction in benefits when her income rises. And when society gets upset that we are spending money for this kind of program what will happen? People will say, "Look at all the money we are spending in insured child support benefits—those damn fathers." And then there will be a big debate about training for fathers versus workfare for fathers. But the point is, the fathers' responsibilities will also be debated.

Currently we have the worst of all worlds. We have a system that says if you try and get ahead we are going to make your life worse. Yet welfare benefit levels in most states are so low that people learn to cheat just to survive. So we have a system that teaches people to cheat, teaches people to work in nontraditional occupations, sends people all the wrong messages. This is not consistent with values. It is distorting our values. That is why everybody hates the system. That is why everyone is angry. If we instead tried to help people who play by the rules, the system would be both politically viable and economically viable. We would be enforcing the American dream.

Let me conclude with a few more words about health care. Health care is critical for the young, when they are growing and learning and developing. But it is also critical for their parents. Critical because a lack of health care in the workplace may encourage people to stay on welfare. We want a good, smart, caring parent. Is it the right thing for them to get off welfare and put their children at medical risk? What signal do we really send about work and responsibility when working may be irresponsible toward your childrens' health? That we give health care to everyone except the working poor is a

ludicrous policy. We do not save much money because we still pay for the really expensive things through uncompensated care pools, public hospitals, and the like. Some people say that we have not decided whether health care is a right. Yes, we have. Health care is a right for everybody but the working poor.

I shall not pretend to be an expert on all the different possibilities for providing protection. I claim no expertise. But let me tell you the lesson of welfare. When services are delivered in a welfare-like system, the public starts thinking about *us* versus *them*. When we have a system that isolates, it tends to stigmatize. If we try to target on the truly needy, they become the truly failing. The public blames the poor because they appear to be different and the poor often feel humiliated. Any system that is income tested will just be like welfare. And we are always going to have incentive problems: when people go to work they lose benefits. I think of Medicaid as welfare medicine. And that is not just a problem for the poor, it tends to create a ridiculous system for providers. We often get absurdly low reimbursement rates. Sometimes we get low reimbursement rates for physicians but not for hospitals. Guess what happens, we then have very long hospital stays and very few physician visits.

We must find a way to bring people into the mainstream. I think that our whole social welfare system has been designed around isolating and separating the poor, not always on purpose, but very clearly that has been the result. It makes everyone mad. It undercuts political legitimacy. And it ultimately hurts the very people that we are trying to help.

I do not think that welfare has been the cause of all evil or anything like that. Nor do I think that it has been much of a solution. We must find a way so that when people do play by the rules they do not lose the game. So let us adopt the principles. If you work you should not be poor. One parent should not be expected to do the job of two. Let us integrate rather than isolate. Let us get beyond welfare dollars and welfare procedures. Let us restore the American dream.

Discussion

QUESTION: In recent years we have pushed hard for Medicaid expansion to more groups, yet you very powerfully criticized “Welfare Medicine.” Should we not be pushing Medicaid expansion?

ANSWER: I really do think Medicaid expansions are useful. It is not the best system by far. But for years and years we have let the best be the enemy of the good, and I see no immediate alternative. Surely we should not hold the uninsured hostage a little longer in hopes that it will spur us toward a more universal health insurance system. I do not like Medicaid particularly. I do

not like the welfare aspects of it. But it is a whole lot better than nothing. So, yes, work on incremental reform. Along the way, keep our eyes on the larger set of goals, and once we get the incremental Medicaid reform to the point that everyone is covered, then we do not have to be concerned with the cost of bringing new people into the system. I think that will make it easier, not harder, to move in more radical reform directions.

And, by the way, the reason we can make incremental progress has to do with who we are helping. There is this huge discussion in the academic literature about the deserving and the undeserving poor. And people are constantly saying that the United States only cares about the deserving poor. I think that is just ridiculous. I think it is true that the United States cares about certain deserving poor, the elderly, and the disabled. But if we ask anybody who are the most deserving poor folks in America, it is going to be the working poor. And we do nothing.

QUESTION: Why not use a children's allowance for all children, the way the Europeans do, rather than child support enforcement and insurance?

ANSWER: We need both. First of all, I am definitely in favor of children's allowance. Part of the reason that I do not emphasize it in some of my work is just that it will cost 30 billion dollars a year to provide \$1,000 to each child. Nevertheless, I think it is a terrific way to go. I even think there is a real chance of passage now. For those who do not understand, a children's allowance or a refundable tax credit for children basically gives money in the range of \$750 to \$1,000 for every child in America. It is nonwelfare support. It is nonstigmatized. It is a universal system. Most European countries have it. It is very expensive to give one to every child in America. Raise taxes on the wealthy and childless to help families. I am very much in favor of it. It is not, however, a replacement for child support enforcement insurance.

It is not a replacement for two reasons. One, we could never get enough of a children's allowance to change fundamentally the economics of being a single parent. You know, most proposals now are for about \$350 to \$700 a child. That is a help. But it is not enough to make it possible for many single parents to work part time and to avoid poverty. But the second and more important reason is that social policy needs to reflect some values involving children. And the beauty of pairing child-support enforcement and insurance is the enforcement part. I really do believe both parents ought to be held accountable. I do not think because one is poor one should have any less accountability than if one is rich. In that sense, I do agree with some of the things that Charles Murray and others have said. Our current social welfare system does not reflect our basic values, and it should.